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MUNICIPAL RAILWAY
ASSETS DEVELOPMENT STUDY

Prepared for:

SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

by

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ECONOMIC & PLANNING SYSTEMS

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INTRODUCTION

The purpose of this report is to define for the consideration of the San Francisco Municipal Railway Improvement Corporation and, in turn, the San Francisco Public Transportation Commission, a strategy which would allow a number of property assets of the Municipal Railway to be developed in order that the Railway realize a long-term revenue flow. Consequently, this report does not examine Railway properties pursuant to the objective of property disposition. Rather, it assumes as a given the retention of properties, their development through private joint ventures, and the realization of long-term revenue flows.

When this study effort commenced, it was intended to inventory every Railway property asset which had any potential for joint development and to develop pro forma analyses on those properties which appeared to have such potential. To varying degrees, this type of analysis had been accomplished in the past in regard to several Railway properties. As the study moved forward, it became increasingly clear that a number of Railway properties were directly or indirectly linked to decisions on major public capital works projects that are now pending before the City and other regional and state agencies. In several instances, the nature of these decisions suggest that there are timely opportunities which might be pursued by the Public Transportation Commission because of their direct benefits in serving identified needs of the Railway or because of their indirect benefits in terms of facilitating joint development opportunities.

The strategy is focused in large part, but not exclusively, upon the opportunity to develop a new headquarters office building for the Municipal Railway. The need for a headquarters building is not new to the Railway, but perhaps is more urgent with the creation of the Public Transportation Commission. That need is documented in this report. The opportunity for developing a new headquarters is provided through the current study effort known as the Transbay Area Study which, in large part, is focusing on the development of a new regional transit terminal to replace the existing Transbay Transit Terminal, in downtown San Francisco. The possibility of an air rights development in conjunction with a new terminal is a unique opportunity which offers a number of advantages, in comparison to other possible office building locations, as set forth in this report.

The financing of a new office building is, of course, a significant challenge, even it is possible to assume financing advantages inherent in air rights development at a publicly owned site and facility. In order to define a strategy which would allow a viable financing scheme for the Public Transportation Commission to consider, it is necessary to

examine the linkages between both the relocation of Railway office functions from existing locations, and the potential relationship between the timely joint development of other Railway properties and the new regional terminal. An initial examination of those linkages is set forth in this report.

A new headquarters office building would provide the opportunity for the development of a portion of the Presidio property, although as will be documented, this opportunity is both limited and difficult. A new headquarters building would also allow the vacation of all existing office leases which the Railway has in place. The proposed new regional transit terminal, itself, also offers the Railway one of its most lucrative joint development opportunities, the commercial re-use of the bus layover lot at the corner of Steuart and Mission Streets. Finally, although unrelated in any direct way (other than financing support) to the proposed new regional terminal, the Kirkland property is made part of the strategy simply because of the combination of joint development value, the acknowledged problems with the operation at Kirkland, and the rather straight-forward nature of the development opportunity.

SUMMARY OF FINANCIAL FEASIBILITY ANALYSIS

This section summarizes the preliminary results of a market review and financial analysis of a new Public Transportation Commission headquarters office building, and the development of three properties owned by the Municipal Railway. The larger report provides a more detailed examination of each of these four development proposals, providing background, justification, market findings, and assumptions employed for each proposal in terms of the financial analysis. The Appendices to this report provide detailed pro formas prepared for each assumed development proposal.

Table 1 summarizes the results of the financial analysis. The Table sets forth total operating costs for a new 120,000 square foot headquarters building, at $2.96 million per year, less rent revenue from other tenants of $1.2 million per year, resulting in a net cost to the Commission of $1.75 million. When the current annual cost of leased space and maintenance ($600,000) is deducted, the net cost of the proposed building is a net annual increase of $1.1 million.

Table 1
Summary of SF Muni Headquarters Consolidation Costs & Site Reuse Revenues

Item	Annual $$
Costs of New Headquarters (120,000 sq. ft.)	
Debt Service	$ 1,944,000
Operating Costs	$ 1,016,000
Subtotal	$ 2,960,000
less: Revenue from Other Tenants	$ (1,212,000)
Net Cost of New Headquarters	$ 1,748,000
less: Expense of Vacated Space	$ (643,000)
Net Increase in Muni Office Space Costs	**$ 1,105,000**
Potential Annual Revenue from Muni Site Reuse	
Geary Site Reuse	$ 229,000
Layover Site Reuse	
Retail	$ 59,000
Hotel	$ 436,000
Subtotal	$ 495,000
Kirkland Site	$ 873,000
Subtotal Potential Annual Revenue	**$ 1,597,000**
Increase/(Reduction) in Costs after Potential Reuse Revenue	**$ (492,000)**

Source: Economic & Planning Systems; Douglas Wright Consulting

The development opportunities presented by the Steuart and Mission layover site, the Kirkland property, and the site vacated by the existing Railway headquarters (Geary and Masonic) present revenue sources which could not only offset this remaining net increase in annual cost, but provide an additional annual increment of revenue to the Railway. The analysis reveals that accomplishment of long-term ground leases for private commercial development at the layover and Kirkland sites (only) would be sufficient to offset the net increase in costs incurred by the new headquarters building. An annual lease cost associated with the relocation of the Kirkland Division is not assumed in this analysis, but it would not significantly diminish the annual revenue flow.

Table 2 sets forth a summary of the annual tax revenues which would be generated by the assumed development of the three properties examined. As much as $4.3 million in additional annual tax revenues would be generated, including property tax (or possessory interest tax), transient occupancy tax (TOT), and sales tax. The actual amount of new tax revenue to the City would depend upon whether this revenue represents a net incremental increase, or a shifting of existing City TOT and sales tax revenue to the subject sites. However, if the Railway were only to be allocated a portion of this additional tax source, in addition to the direct lease payments received from the developments, its annual operating costs would be further assisted.

Table 2
Summary of TOT & Possessory Interest Taxes from SF Muni Site Reuse Projects

Project	Annual Tax Revenue			
	Transient Occupancy	Property Tax	Sales Tax	Total
Geary Site Reuse	na	$ 726,000	na	$ 726,000
Layover Site Reuse	$ 694,000	$ 227,000	$ 53,000	$ 974,000
Kirkland Site	$ 1,983,000	$ 543,000	$ 106,000	$ 2,632,000
Total	$ 2,677,000	$ 1,496,000	$ 159,000	$ 4,332,000

Notes:
(1) TOT and sales tax estimates represents gross amounts; to the extent that these projects complete for existing visitor nights and expenditures, the net increase to the City would be less.
(2) A portion of the property tax revenue may actually be paid as possessory interest tax for the private use of publicly owned land.
(3) Some property taxes may be generated by new office headquarters, depending on the extent of private tenancy and/or building ownership.

Source: Economic & Planning Systems; Douglas Wright Consulting

The market reviews and analyses are based upon recent reports on comparable projects, industry sources, interviews with real estate professionals, and experience with comparable projects. The results are preliminary and are intended to provide "order of magnitude" estimates of financial costs and revenues, and to highlight key issues. Actual results will vary depending upon a number of factors, including financial and market conditions at the time of development, detailed design factors, site specific regulatory and development conditions, and other factors which have not been anticipated as part of this study.

A matter not addressed in this report is the question of retention of joint venture revenue flows by the Public Transportation Commission. Certainly, the efforts required to accomplish the development through public-private partnership of Railway properties are not worth undertaking if the benefits of the resulting revenue flow is lost to the Railway due to San Francisco's accounting and budgeting procedures. Yet under the current conditions, there do not appear to be any guarantees that revenues generated by the development of Railway properties could be retained by the Transportation Commission, or even excluded from the annual budgeting process. It is highly recommended that greater attention be given to this matter by the Transportation Commission staff and other key City staff.

HEADQUARTERS OFFICE BUILDING PROJECT

Proposal

It is proposed that the Public Transportation Commission and the Municipal Railway seek to develop a new headquarters office building. The most advantageous location and opportunity for such a building is on air rights over the new regional transit terminal planned for construction south of Market Street in downtown San Francisco.

Project Background

The office of the Muni general manager and other office space generally referred to as the Muni headquarters is located in part of the building at 949 Presidio Avenue. The Presidio trolley coach division storage yards and maintenance facilities are adjacent to the 949 office building to the north, and a variety of other Railway uses, including employee parking, are also located in the building. The 949 Presidio office building was built in 1912 and while there have been some capital investments made which were aimed at rehabilitating parts of the building, the Railway's Facilities and Infrastructure Plan labels the office building as " . . . old, rundown, and overcrowded . . .", an assessment which observation suggests is accurate.

In fact, the 949 Presidio office space does not provide for a true headquarters operation. The lack of space at Presidio does not allow all important management functions to be located together at this site. The Railway's financial officer and staff are located in the downtown theater district, in a building owned by the Water Department at 425 Mason Street, while other senior staff are located in the Civic Center area, in adjacent buildings at 1145 and 1155 Market Street, and also at the Green Division facility. Annual Railway lease costs for office space currently total in excess of $520,000, according to the Railway's finance office.

Although the dispersed office locations are due, in part, to the organizational structure employed by the (former) Public Utilities Commission (PUC), the communication, management, and logistical inefficiencies of the Railway's scattered office locations were duly noted when the Railway was part of the PUC. The need for a new headquarters office building has been established in the Railway's facilities planning efforts for a well over a decade. The establishment of the Public Transportation Commission only serves to accentuate this need.

The current Facilities Plan points out that recent and planned investments in Railway facilities have shifted these facilities to a greater concentration in the southeastern quarter of the City. Since it is efficient to have a headquarters site which is easily accessible to

the various operating divisions, the Plan argues that the headquarters should probably be located in the southeast part of the City, in conjunction with an existing or planned facility. In addition, the possibility of a new headquarters building in the Civic Center area is also identified. A Civic Center location would have the advantage of placing Railway management in close proximity to City Hall functions, which have historically placed a travel demand upon senior Railway staff. This location is preferred by Muni's senior staff.

Project Justification

Certainly, the strongest argument for a new Railway headquarters office building is significantly improved management efficiency. Increased efficiencies should be realized in two important areas if senior management activities and personnel were to be consolidated in one location. First, communication efficiency is substantially enhanced since management personnel are located in the same building and the ease with which they can meet and communicate with one another is no longer dependent upon telephone connections, meeting scheduling, and/or travel across the city. Informal face-to-face communication can also be a very positive element in improving the cohesiveness of an organization. Second, consolidation should inherently increase productivity since management personnel would spend considerable less time traveling between Railway office locations. Such travel can accumulate into a significant number of hours over the course of a year, hours which, given a consolidated site, could be spent at work rather than at travel.

Less tangible benefits of Railway staff consolidation in a headquarters building include considerations of general staff morale and staff recruitment competitiveness in the transit industry. To the extent that staff morale is influenced by both the image and practical aspects of building and office space quality, the existing 949 Presidio facility is certainly not a positive factor within the organization. Other organizational characteristics being equal, there can be no doubt that consolidation of Railway management in a quality headquarters building would have a positive affect not only on those employees housed in the building, but also on the way that other employees feel about the organization and the image it presents to the public.

Until the creation of the Public Transportation Commission, and the associated assignment of all management responsibilities to the Railway's general manager, the Municipal Railway was an anomaly among transit properties in North America. Under the previous Public Utilities Commission (PUC) organization, the Railway general manager served more as an operations manager, since a number of important management functions and services - including finance, engineering, and personnel - did not report to the general manager position, but were instead provided through the service bureaus of the PUC. This constraint on the management authority meant that the Railway was never on a level playing field within the transit industry in terms of staff recruitment. That time is now passed, and the Railway should be in a position to compete effectively

in national personnel markets. Certainly, both the dispersion of senior management and the quality of office facilities are liabilities in that recruitment competition.

Project Linkages

The Municipal Railway's Presidio property has long been considered an important opportunity for joint development, although any such development would have to be done in conjunction with the identified overhaul and expansion of the trolley coach division operations. However, accomplishment of a new headquarters office building at a site other than the Presidio would be supportive of both the trolley division improvements and any joint development since it would allow for the removal of the existing office structure at 949 Presidio.

The existing headquarters building at 949 Presidio is located on the portion of the site (approximately 76,000 square feet fronting on Geary) which currently is within a 160 foot height district, while the remainder of the property is within a 40 foot height district. Eventually this portion of the property may be employed - in its basement elevation - for an expansion of the trolley coach division operations. Removal of the existing building would help facilitate that expansion and not preclude the possibility of air rights development over any such expansion within the 160 foot envelope. Alternatively, if the Geary portion of the Presidio site is not needed for the trolley division expansion, then the possible development of this site (via long-term commercial lease) is also facilitated by the ability to remove the existing building.

Project Proposal

It is proposed that the Public Transportation Commission and the Municipal Railway seek to develop a new headquarters office building on air rights over the new regional transit terminal planned for construction south of Market in downtown San Francisco. The exact location of the new terminal is, at this writing, unresolved, but either of the two sites currently being considered in the Transbay Area Study would offer an office building location with unique characteristics, including the following:

* The Transbay Area location would offer a high level of employee home-to-work accessibility. With a regional transit terminal beneath the building, a large number of Muni routes either passing by the site or within two blocks (including all of the light rail routes), and BART nearby, the building would be transit intensive, a real advantage for employees as well as an opportunity for the Railway to set an important community example.

* The Transbay Area location is very accessible for employee work-to-work travel. As noted earlier, efficient travel to the Railway's operating divisions is important. The terminal location would have the advantage of having exceptional transit access since so many Muni routes pass so close, as well as offering good automobile accessibility with Third Street and I-80 nearby.

* The Transbay Area location, given its transit accessibility and excellent location within the San Francisco downtown, might offer office space leasing opportunities to other public or private transportation-related agencies or firms, a market advantage which does not, with the possible exception of Civic Center, exist at the other candidate sites.

* Air rights construction at the new terminal site would mean that property acquisition costs and procedures would be avoided, and that no additional property would be removed from the property tax rolls for public use. Although this would also be the case at other existing sites, no sites have the locational advantages of the terminal vicinity in terms of accessibility.

* The Transbay Area location would provide employees with the amenities of downtown San Francisco, and present through the location and visibility of the site, a strong and improved image of the Railway.

In 1994, Caltrans and San Francisco joined together to initiate a transportation and land use study aimed at: one, determining the appropriate location and conceptual design of a new regional transit terminal (to replace the existing Transbay Transit Terminal); and two, planning for the future land uses in the adjacent area (including properties made vacant by the removal of the existing Terminal and the Terminal Separator freeway). Currently, two locations are under study for the site of new terminal: the site of the existing Terminal; and a site at Main, Beale, and Howard.

A new terminal on either site is currently envisioned as a two-level bus facility which would be constructed over street level commercial uses. In both instances, the footprint currently defined is in excess of 80,000 square feet. Both of these sites are currently owned by Caltrans (the owner/manager of the existing Terminal), both are zoned "P" (Public) under the City's zoning code, and both would be subject to review by the City Planning Department with respect to appropriate height and bulk (floor area ratio) restrictions in the future. However, Planning Department staff indicate that assuming contiguous height district restrictions is a reasonable assumption, resulting in a minimum height of 200 feet. In short, there is substantial envelope available at both locations.

Project Financial Feasibility

The Railway staff has estimated that the total amount of space required to provide for the office needs of the Railway staff and the Public Transportation Commission is approximately 90,000 square feet. For purposes of this analysis, an office building of 140,000 square feet is assumed, thus providing 50,000 square feet which could be leased to public or private tenants, and providing for possible future expansion for Railway uses. The pro forma (see Appendix A) assumes that structured parking is provided at the site, and utilizes a ratio of one space per thousand square feet of office. This ratio satisfies the assumed Railway parking requirement of approximately 90 spaces, and allows for 50 spaces which could be leased to tenants.

It is important to note that the 90,000 square foot space requirement for the Railway staff, although derived from the current Facilities Plan, does contain assumptions which if altered could substantially reduce the total square footage requirement. For example, the total includes an assumption of 6,400 square feet for Central Control and an assumption of 7,500 square feet for the equipment space requirements of the Railway's Reproduction unit. If decisions were made that either or both of these activities could more appropriately and economically housed elsewhere, then the cost figures used in this analysis would be reduced accordingly. This alternative is also examined with a pro forma (Appendix A), in which an office building of 120,000 square feet, with 70,000 square feet dedicated to the Railway, is assumed. It should also be recognized that the actual building size would depend upon commitments from other public agencies, market conditions at the time of development, and financial arrangements with a private builder/developer.

San Francisco's downtown office vacancy rate is currently about 11 percent, with average rents ranging from $18 to $29 per square foot per month for class A space. The higher rents are commanded by prime locations with views. While these rents are significantly lower than previous highs and the current market remains weak, demand has been increasing slowly with fewer concessions being offered compared to recent years. No significant amount of new development has occurred since 1990, and none is anticipated until after the year 2000 as vacancy rates are likely to decline and rents increase. Over the long run, competition for tenants will continue to be strong due to the availability of sites and proposed new projects, continuing competition from suburban markets, and trends affecting the amount and utilization of office space by workers.

Although there is unlikely to be a demand for significant amounts of new office space in the near term, there does appear to be a need for entire floor plates in class A buildings, which the new headquarters building could provide. While there has been a tendency in recent years for class A office tenants to locate south of Market Street, the location clearly is not as attractive as space in the financial district, itself. This factor would consequently argue for assuming mid-range rents, despite the view potential which exists at both terminal sites.

Table 3 shows the cash flow that results from Railway and other tenants paying average rents of $24 per square foot (fully serviced) 140,000 square foot building. A shortfall could still exist after operating expenses and debt service, which the building owner (e.g., the Public Transportation Commission) would have to cover. The Railway's total costs would be approximately $2.2 million annually, including the assumed shortfall, after accounting for rent paid by other tenants. This cost would be partially offset by savings from vacating existing Railway office space (both leased and owned) that costs approximately $600,000, resulting in a net annual office space cost increase of $1.6 million. This does not net out revenues from the reuse of Muni sites which would be made developable by the creation of a new terminal and office building. (In addition, no attempt has been made to estimate the costs savings to the Railway realized through consolidation in terms of such items as staff travel time and costs.) Of course, Muni's

costs would be reduced to the extent that tenants pay higher rents for office space and parking.

Table 4 presents the cash flow analysis for a headquarters office building of 120,000 square feet (70,000 occupied by the Railway). Given the smaller office building size, and cost, the resulting total cost to the Railway is approximately $1.95 million, and the net annual cost is reduced to $1.1 million.

Table 3
Summary of SF Muni Headquarters Consolidation Costs & Site Reuse Revenues

Item	Annual $$
Costs of New Headquarters (140,000 sq. ft.)	
Debt Service	$ 2,267,320
Operating Costs	$ 1,167,105
Subtotal	$ 3,434,425
less: Revenue from Other Tenants	$ (1,212,000)
Net Cost of New Headquarters	$ 2,222,425
less: Expense of Vacated Space (1)	$ (643,000)
Net Increase in Muni Office Space Costs	**$ 1,579,925**

Source: Economic & Planning Systems; Douglas Wright Consulting

The residual value analysis (Table 5) indicates that the project (120,000 sq. ft.) would generate a negative residual land value, unless average rents exceed the assumed $24 per square foot rent. In other words, the current average rents are insufficient to fund development costs (excluding land) and provide a residual return to the land (or "air rights"). Thus, at least for some number of years, there would be no return to the "land" ownership. As a function of market conditions, increasing rent levels for tenant office space and parking might change this over time and at some point generate a revenue stream.

Table 4
Summary of SF Muni Headquarters Consolidation Costs & Site Reuse Revenues

Item	Annual $$
Costs of New Headquarters (120,000 sq. ft.)	
Debt Service	$ 1,944,000
Operating Costs	$ 1,016,000
Subtotal	$ 2,960,000
less: Revenue from Other Tenants	$ (1,212,000)
Net Cost of New Headquarters	$ 1,748,000
less: Expense of Vacated Space	$ (643,000)
Net Increase in Muni Office Space Costs	**$ 1,105,000**

Source: Economic & Planning Systems; Douglas Wright Consulting

Financing Options

There are three basic approaches to financing the headquarters office building: one, issue general obligation bonds; two, issue tax exempt lease revenue bonds; and three, a lease-purchase arrangement with a private developer using private financing.

General obligation (GO) bonds require a two-thirds majority County voter approval. The bonds are secured by the County's real property assessed valuation. The ability to raise property taxes provides bondholders with a highly secured investment. As a result, interest rates on outstanding debt are generally the lowest among the various types of municipal bonds. The City and County of San Francisco has had relatively successful experience with GO bonds. However, securing the necessary two-thirds vote is typically difficult under any circumstances.

Lease revenue bonds are an instrument used in lease purchase financing, whereby a long-term financing lease may be sold publicly to finance real property acquisition or construction. A non-profit corporation, including a joint powers authority (JPA) or some other non-profit entity, issues lease revenue bonds to finance facilities that are leased to a public agency.

Debt service is secured by lease revenue, paid from revenue of the agency leasing the building. The bonds are considered to be a direct debt of the lessor and are payable solely from lease payments received from a public agency other than the issuer. Typically, full title to the improved facility reverts to the lessee after the debt is retired.

Table 5
Summary of Financial Analysis
Transbay Terminal Site/New Muni Headquarters

Operations Analysis	
Net Effective Income	
Muni rent	$ 1,680,000
Other	$ 1,200,000
Parking	$ 172,800
Subtotal	$ 3,052,800
less: Vacancy	$ (144,000)
Subtotal	$ 2,908,800
less: Total Operating Expenses	$ (1,016,000)
Net Operating Income (NOI) before debt	**$ 1,892,800**
less: debt service	$ 1,944,000
NOI after debt service	**$ (51,200)**
Residual Value Analysis	
NOI	$ 1,893,000
Capitalized Value	$ 21,036,000
less: Total Project Cost (excluding land)	$ 21,880,000
Residual Land Value	**$ (844,000)**

Source: Economic & Planning Systems; Douglas Wright Consulting

Generally speaking, the interest rate associated with tax-exempt financing translates into a lower overall cost of development. In the experience of public sector real estate development agencies and banking officials, whenever the spread between tax exempt interest rates and commercial lending rates exceeds 2.0 percentage points, the costs of using tax-exempt bond financing are likely to be lower than a lease-purchase approach (using conventional financing obtained by a private developer). The key elements associated with the use of lease revenue bonds are:

* Lease revenue bonds can achieve tax exempt status as long as no more than five percent of the tenants are for-profit entities.

* Tax-exempt interest rates are substantially lower than commercial loan rates and reflect a likely cost advantage under current market conditions. Currently, the spread is approximately 2.5 percentage points between the tax-exempt bond interest rate (6.0 percent) and the commercial loan interest rate (8.5 percent).

* The equity investment and developer return requirements associated with private development are eliminated, except for fees to the builder of the project.

* Substantial costs are associated with issuing bonds, including bond insurance. The reserve account, issuance cost, and underwriter fee is assumed to be 15 percent of the funds required. However, the interest rate savings more than compensates for these costs (assuming a sufficient spread between the two rates exists in the market).

* Lease revenue bonds require up-front financing. The subject agency must be capable of funding front-end costs including the project drawings/schematics needed to size the bond issue and land costs (if any). The cost for project drawings/schematics is approximately 6.0 percent of total project costs, or $1.2 million assuming a total project cost of $20 million.

A third financing approach is lease purchase financing, which utilizes a private developer in an ownership position. In this approach, up-front costs can be privately financed and, as an option at a later date, the public agency (the Railway) could "cash out" the developer (e.g., using the proceeds from a tax-exempt bond issue, or other source). Long-term lease arrangements are possible, including leases which amortize the building cost such that the purchase price at the end of the term is a nominal amount. Financial characteristics associated with this approach include:

* Interest rates are higher when compared with tax-exempt financing due to the need to borrow in the commercial real estate loan market. The current market rate is approximately 8.5 percent for a commercial loan.

* There is no limit on private sector tenants such as exists with tax-exempt bond financing. In a strong real estate market, it would be advantageous to eliminate the restraint of a maximum of five percent for profit tenants. In San Francisco at this time,

commercial office vacancy rates remain relatively high and so this argument private financing is not very relevant.

* The issuance cost associated with a commercial loan, typically approximately one percent of the funds required, is substantially lower than that associated with tax-exempt bonds (15 percent).

The State of California as used this approach on a number of projects. In one recent development, a private developer obtained financing and constructed a 325,000 square foot building for the Department of Justice in Sacramento. The State entered into a long-term lease with several periods identified at which the State would have an option to purchase. The State elected to purchase the building at the first available "window", which was the date of occupancy by the Department of Justice. The State issued a tax exempt bond through the State Public Works Board (the usual issuer of bonds for the State along with JPAs), and used the proceeds to purchase the completed building.

Key Assumptions and Methodology

The pro forma analysis is based on average rents of $24 per square foot per year, fully serviced, plus revenue from parking space rental at $120 per month per space. Current rents for class A office space are $22 to $24 or more, depending on location, views, amount of space and lease terms. The rent from the 50,000 square feet of non-Railway office space is reduced by a 5% vacancy factor. There is no assumption of commercial retail space employed in the analysis. Although first floor commercial use would be a common assumption at a downtown location, in this instance it is assumed that such commercial space is part of the terminal facility. Of course, this assumption could be altered.

The rents assumed are for fully serviced space. The pro forma analysis deducts $7 per square foot per month for operating expenses. (Maintenance costs at the 949 Presidio office building were assumed to currently be $3.50 per square foot per month.) Possessory interest tax (tax paid in lieu of property taxes for the private use of publicly owned land) is applied to the non-Railway portion of the building. This tax could be less if: one, the space leased is to public agency tenants; or two, the building is under public ownership.

Construction costs are assumed to be $150 per rentable square foot, including soft costs. It is assumed that there is no cost associated with the land or the use of the air rights over the terminal. Structured parking is assumed to cost $15,000 per space to construct; if the parking is located in the "basement" of the terminal, this cost would be higher. Total project costs also add a developer fee (or profit) equal to 10 percent of the project costs. This return may be achieved in various ways, e.g., through payment of a fee upfront, or through a share of ongoing cash flows. Returns may also be gained to the extent that equity financing is utilized, in addition to the debt financing assumed in this analysis.

The analysis is structured to calculate the "residual" land (or in this case, air rights) value. It is assumed that land would not have to be acquired, as would be the case with a typical office project, but that any residual value would be treated as land or "air rights" value and as returns to the ownership of the project.

Financing Recommendation

Based on current market conditions, and utilizing assumptions as set forth about the headquarters office building, issuance of a lease revenue bond to finance the project is recommended. This recommendation, however, is based on several general assumptions, and depends on the financial strength of the Railway, as well as more precise project specifications. In addition, changes in the economy affecting lending rates and the office market could alter these recommendations. If market conditions change substantially prior to project initiation, the potential for sale to a private developer should be re-evaluated.

The following presents an outline of a potential financial structure which could be employed:

1. The City and County of San Francisco and another agency sign an agreement for the purpose of creating a Building Authority (JPA). The formation of a Building Authority is necessary in order to issue tax-exempt lease revenue bonds. Caltrans, as the property owner, is a logical party to join with the City in creating the Building Authority.

2. The San Francisco Public Transportation Commission initiates design studies in order to estimate development costs and the size of the bond issue required. The bond size, in turn, is a factor in the creation of the "air rights" and the building leases.

3. Caltrans leases the air rights for the building to the Building Authority under a long-term lease. The amount of the lease might be nominal for a significant period, e.g., the debt service period, in order to improve the Commission's ability to finance the project. However, at some point it would be likely that Caltrans would begin to realize a revenue flow from the air rights development, if only from the non-Commission lessees (including parking). In any event, it is assumed that the presence of the office building serves to enhance the value of the transit terminal in a variety of ways.

4. The Building Authority enters into a long-term lease for the building with the San Francisco Public Transportation Commission. (If the Commission leases less than the entire building, the amount of debt that can be issued will be lower, and an additional source of funding would be necessary to cover the difference. However, the Commission could lease the entire building and enter into sub-leases.)

5. The Building Authority issues tax-exempt lease revenue bonds, utilizing the bond rating of either the City and County of San Francisco or the State of California. The presumed debt period should match the useful life of the building, 30 years.

6. The Commission subleases the space not occupied by the Commission to other agencies, recognizing that no more than five percent of the space can leased to for-profit parties. The Commission's primary lease would be set for the period of the debt retirement, but tenant sub-leases for office and parking could be escalated over time. Tenant revenue could assist in defraying on-going operating and maintenance costs.

7. The ownership of the building reverts to the Transportation Commission upon retirement of the outstanding debt, and a direct "air rights" lease relationship is established between the owner of the land, Caltrans, and the Transportation Commission.

Summary

The Public Transportation Commission's Municipal Railway operation very much needs a consolidated headquarters office building in order to function as a more efficient organization, and deliver improved services to the public. The proposed new regional transit terminal in the downtown area south of Market Street offers an opportunity for developing a new office building with unique locational advantages, and avoids the need for acquisition of additional property. An office building at the terminal site also offers advantages to the property owner, Caltrans, in terms of value enhancement to the terminal and the potential of long-term revenue flow.

If for whatever reason the accomplishment of a headquarters office building on the proposed new transit terminal proves infeasible, the analysis provided remains valid if the building is located on another property owned by the Railway (or other public agency willing to joint venture). Sites such as Flynn, Woods, and Geneva present such possibilities. However, in these instances the level of market demand for office space beyond that required by the Railway (the tenant lease space assumed in the analysis) is much less and this would alter the financial analysis to a degree.

MISSION & STEUART PROJECT

Proposal

It is proposed that the Public Transportation Commission enter into an agreement with a private party to accomplish the joint development, through long-term commercial ground lease, of the Mission and Steuart site.

Project Background/Justification

The development of the Railway's property at the corner of Mission and Steuart Streets has not been the subject of any previous analysis. The 34,375 square foot parcel has served for many years as a terminus and layover lot for Railway trolley and diesel coach lines using Market and Mission Streets. Similar to other Railway properties, the land uses around the Mission and Steuart lot have changed over the course of the past several decades, resulting in a significant increase in the market value of the Railway property. These physical changes in the neighborhood environment have also served to accentuate the growing incompatibility of the Railway's current use of the property. In the case of the Mission and Steuart property, a number of public decisions currently pending have created a framework in which consideration of the future of the Railway's property is timely and appropriate, if not critical.

In October, 1989, following the Loma Prieta earthquake, Caltrans closed the elevated doubledeck Embarcadero Freeway which passed by the Mission and Steuart property immediately to the east. Built in the mid-fifties, the Embarcadero Freeway created a barrier between San Francisco's financial district and the waterfront, including the Ferry Building and other Port facilities east of The Embarcadero roadway. Although Justin Herman Plaza and The Embarcadero Center lay immediately north of the Railway property, and there were some signs of commercial invigoration in the historic block of buildings between Steuart and The Embarcadero across Mission Street, the presence of the freeway structure did not invite development of the Railway property.

The decision by San Francisco to demolish and not rebuild the Embarcadero Freeway changed the area, and its potential, as dramatically as the Freeway's controversial construction did in the 1950's. The changes include:

* Buildings in the block to the south which for forty years had views of a freeway only yards from their windows now faced an unobstructed view of the Bay. The Steuart Street block to the south enjoyed an economic revival as new hotels, restaurants, and a remodeled YMCA opened their doors. A similar view of the Bay was created at the Mission and Steuart site.

* Plans were initiated by the City to replace the Freeway with surface roadway improvements, intended to provide continuity to the new Embarcadero boulevard already being created to the north and south along the waterfront.

* The Railway's own subway extension (and "turn back") went to construction in 1992, facilitating with its 1996 scheduled completion the extension of Railway service on The Embarcadero to the south.

* The owners of One Market, the property across Steuart Street to the west, undertook an internal and external face-lifting of the entire block, providing much improved street level amenities.

* The Port of San Francisco initiated a planning exercise aimed at the rehabilitation and restoration of the Ferry Building and its plaza, and also undertook capital improvements to the Bay ferry facilities at Pier 1/2.

* Finally, San Francisco completed an initial examination of the new open space, provided by the demise of the Freeway, to the east and north of Justin Herman Plaza, considering options on new development, park expansion, urban design, and other matters.

In short, in the space of less than six years, the Railway's Steuart and Mission site transitioned from a relatively unattractive parcel tucked away under an elevated freeway, to a piece of property of considerable potential development value.

Project Linkages

There are five important linkages which can be identified in the consideration of a joint development project at the Steuart and Mission site:

1. An examination of the relocation of the layover function, currently underway, in the Transbay Area Study;

2. Final design decisions regarding treatment of The Embarcadero, immediately adjacent to the site to the east, as part of the Mid Embarcadero project;

3. Implementation of the F Line in conjunction with the Mid Embarcadero project;

4. Completion of the Railway's Turnback project; and

5. The pending Mid-Embarcadero Open Space and Urban Design study.

Taken together, these activities suggest that it is a very timely moment to consider the future of the Mission and Steuart property. A brief description of each of activities is provided below.

First, the Transbay Area Study, which is studying the development of a new regional transit terminal to replace the existing Transbay Transit Terminal is also examining the relocation of the layover activity (currently located at Mission and Steuart) to the new terminal site. Obviously, the relocation of this layover activity is a prerequisite to the possible development of the Steuart and Mission site. Therefore, the conclusions reached by the Transbay Area Study are crucial to the proposal for a joint development project at Steuart and Mission. In addition to the Transbay study, the Port of San Francisco has requested the Railway to consider route extensions to better serve the Ferry Building and nearby areas, and has suggested that the Port would be willing to assist the Railway in relocating the terminus and layover needs of such extensions.

A second decision, and one which also involves the Port, is the finalization of the Mid-Embarcadero roadway design in the vicinity of Mission and The Embarcadero. In the study process aimed at finalizing this design, the Railway staff requested that nearly forty feet of Port property, located immediately east of the layover parcel, be provided to the Railway by the Port in order for the layover parcel to be expanded. Although this matter could be affected by the conclusions of the aforementioned Transbay Area Study, the expansion of the layover lot would also affect the amount of space dedicated to pedestrian use between the layover lot and the Bay.

A third consideration which is directly linked to the future of the layover lot is the implementation of the F Line as part of the Mid-Embarcadero project. As currently proposed, the F Line would be extended from Fremont Street east on Market, south on Steuart, and then pass through the northern part of the layover lot after which it would settle in a mid-boulevard Embarcadero alignment and continue northward. It is assumed that sufficient space - approximately 24 feet - would be allocated from the north section of the layover lot to accommodate the double tracks of the F Line, and that a stop would be located at this location.

The fourth project linkage to consider is the completion of the Railway's Turnback project, scheduled for mid-1996. The layover site has been diminished in size for the life of the construction phase of the project, with an eastern section devoted to the construction work. When the Turnback project is completed, it will be necessary to cover the underground tunneling and treat the surface appropriately. Consequently, it would be efficient and economic to reach a decision on the future of the layover site so that the surface can be treated accordingly.

Finally, the City's Waterfront Office is in the process of continuing an important urban design study for the open space of the expanded and redefined Justin Herman Plaza area. This study will build upon the 1994 Mid-Embarcadero Open Space Project, which while reluctantly assuming the maintenance of the Railway layover activity at Mission and Steuart, nonetheless called for further exploration its possible relocation, for urban design reasons. The study about to begin will probably be sympathetic to the urban design considerations of relocating the layover activities and accomplishing a building massing

on the Steuart and Mission site, thus providing a defining "wall" at the south end of the open space.

Beginning in late 1995, and continuing for the following year, these project activities and decisions will create a framework in which a decision on the possible relocation of the Railway operation from the Mission and Steuart site, as well as a decision on the possible development of the site, would be timely for the Railway. In a very real sense, there now exists a "window of opportunity" for considering options to the continued use of the site for coach layovers.

Project Proposal

It is proposed that the Municipal Railway enter into an agreement with a private party in order to accomplish the joint development, through a long-term commercial lease of the Mission and Steuart site. The Railway would retain title to the entire parcel as well as to an operating easement which would allow the F Line to operate through the parcel on its northern edge. For purposes of this discussion, it is assumed that the F Line double trackage and stop location would be incorporated within the commercial building to be developed.

The integration of the vintage F trolley line with the building should bring value enhancement to the first floor commercial uses. The trolley vehicles planned for use on the F Line - the PCC models currently operating on Market Street or the Railway's older vintage trolley fleet - have proven to be an attraction in their own right. The inclusion of the tracks and stop within the building offers the opportunity for integration of first floor commercial uses which are mutually supportive. In addition, providing a trolley stop within the building would provide F Line passengers with an attractive, safe, and secure boarding location.

Although the City Planning Department has indicated that any number of possible uses would be reasonable to assume at this location, for purposes here the primary use of the site is assumed to be a four story building with the ground floor occupied by commercial uses and the three upper floors by a 135 room hotel. The height of the structure is defined by the forty foot height restriction imposed by Proposition K on the building's north side, adjacent to the open space, and by the relationship to the height of the buildings across Mission Street, to the south.

The Mission and Steuart site is 34,375 square feet, but this footprint is reduced on the building's ground floor, by the space required by the trolley stop, to a net of approximately 24,000 square feet of leaseable floor area. This is assumed to consist of 2,400 square feet utilized by the hotel for a reception and office area, with the remainder dedicated to commercial space. The commercial space is assumed to include 1,000 square feet of exhibition space which might be related to the Railway's vintage trolley operation and stop, and which would pay a nominal rent. Although there is additional footprint available immediately east of the property which is owned by the Port and could be added to this project, incorporation of this additional parcel has not been assumed or

evaluated. (Although the Port of San Francisco faces various restrictions on the use of its land, there is nothing about this proposal which would apparently conflict with such restrictions. Thus, the possible expansion of the footprint onto the Port parcel, and the Port's involvement in the project, is worthy of investigation.) No off-street parking is assumed as part of the project, and it is assumed that parking would be leased at a nearby garage, with the costs passed on to hotel guests or through the cost of valet service to retail customers.

The central waterfront appears to offer the strong potential for a small, high quality hotel. The area is currently served by the Hyatt Regency (803 rooms) and small hotels to the south on Steuart Street, the Griffon (62 rooms) and the Harbor Court (131 rooms). The latter two hotels are examples of small hotels, sometimes referred to as "boutique" hotels, which are achieving occupancy rates in the 80 to 90 percent range. These types of hotels generally do not include the restaurant, meeting room, pool/health club, and other facilities of a full service hotel, but do provide high levels of service, competitive rates, attractive rooms, and are often associated with a high quality restaurant.

Although the proposed project would be the third such small hotel within two blocks on Steuart Street, its prime location, the views of the bay to the east, the park-like setting, the pending beautification of The Embarcadero, and the opportunity for a unique integration of the vintage trolley line within the hotel site, all indicate a very high probability of success.

Project Financial Feasibility

Tables 6 and 7 summarize the cash flows from the hotel and the commercial retail uses. The land lease revenue streams to the Public Transportation Commission of $436,000 and $59,000 for the hotel and the retail, respectively, total $495,000 annually (initial year). Total project costs are estimated at $12 million, exclusive of land cost and (any) developer fee or profit. No land cost exists, and a developer fee would be required depending upon the approach taken in implementing the project.

Table 6
Summary of Financial Analysis
Layover Site - Hotel

Operations Analysis	
Net Effective Income	$ 6,535,000
Total Operating Expenses	$ (5,015,000)
Net Operating Income (NOI) before debt	$ 1,520,000
less: debt service	$ (728,000)
less: land lease	$ (436,000)
NOI after debt service	$ 356,000
Residual Value Analysis	
Net Operating Income	$ 1,520,000
Capitalized Value	$ 15,205,000
less: Total Project Cost (excluding land)	$ (9,749,375)
Residual Land Value	$ 5,455,625

Source: Economic & Planning Systems; Douglas Wright Consulting

The hotel's 135 guest rooms are assumed to gross $6.5 million per year. It is assumed that restaurant operations on the ground floor are separately operated. After deducting operating costs, debt service, and a land lease, a $356,000 annual return on investment remains. Analysis of the retail component indicates an ability to pay an annual land lease of $59,000, while still generating a reasonable return on equity. The actual financial returns could vary depending whether or not the restaurant is operated by the building owner.

Table 7
Summary of Financial Analysis
Layover Site - Retail

Operations Analysis		
Net Effective Income	$	599,000
Total Operating Expenses	$	(193,000)
Net Operating Income (NOI) before debt	$	406,000
less: debt service	$	(259,000)
less: land lease	$	(59,000)
NOI after debt service	$	88,000
Residual Value Analysis		
Net Operating Income	$	406,000
Capitalized Value	$	4,058,000
less: Total Project Cost (excluding land)	$	(3,470,000)
Residual Land Value	$	588,000

Source: Economic & Planning Systems; Douglas Wright Consulting

Key Assumptions and Methodology

The hotel pro forma (Appendix C) assumes an average room rate of $140 per night, and an occupancy rate of 85 percent. Operating and fixed expenses are calculated as a percent of room revenue, in accord with industry averages for small, upscale hotels. The retail analysis assumes average lease rates of $30 per square foot per year (triple net); maintenance, utilities, and taxes are assumed to be paid by the tenants.

Construction costs are assumed to be $150 per rentable square foot, including furnishings, fixtures, and equipment (FF&E) tenant improvements, and soft costs. Land costs and developer profit are not included. No parking costs are assumed. The cost estimates could vary, depending on site-specific and building-specific design considerations.

The analysis is structured to estimate the amount of land residual value created by the project, and the estimated annualized lease stream that the project could afford. The pro forma calculates debt service based on a 9 percent interest rate applied to debt service on 75 per cent of total project costs (excluding developer profit), amortized over 20 years. The actual terms and amount will vary depending on the type of financing utilized.

A developer fee, or profit, equal to 10 percent of project costs is included in the calculation of residual land value. This return may be achieved in various ways, e.g., through payment of a fee upfront, or through a share of ongoing cash flows from operations. Returns may also be gained to the extent that a private equity contributes to the financing.

PRESIDIO PROJECT

Proposal

Assuming that the Transportation Commission is successful in securing a new headquarters office building, the Presidio parcel which fronts on Geary Boulevard should be pursued as a joint development opportunity, but careful review of all possible options on the re-use of the balance of the Presidio site should be accomplished first.

Project Background

The development of the Presidio property has been the subject of examination on several occasions during the past two decades. The 232,550 square foot property is largely used as a trolley coach division, having been constructed in 1912 as a streetcar facility. On its south side, fronting on Geary Boulevard, is the building which houses the headquarters office of the Railway, as well as some parking inside the ground floor of the building. Off-street parking is also found adjacent to the building along Geary.

Development proposals for the Presidio site must necessarily account for the reconstruction needs of the trolley coach division as well as a number of broader planning considerations. The Railway's Facilities Plan provides an excellent detailing of the reconstruction needs, concluding that the needed expansion requirements of the coach facility can be met by either: one, double-decking the existing coach yard; or two, expanding the existing lower level by excavating south to Geary Boulevard, and single-decking the existing yard. In either approach, the opportunity for joint development would exist through air rights development.

Under the City's current zoning, the Presidio site is defined by two height districts. The Geary frontage, a parcel of approximately 76,000 square feet (which assumes the formal vacation and use of the off-street parking lot which currently exists along Geary) is within a 160 foot height district. The remainder of the Presidio site is within a 40 foot height district.

Although past examinations of the development of the Presidio property have considered commercial office (including a new Railway office building) and commercial retail, the most common conclusion is that the site offers a unique opportunity for housing. Previous public discussions of possible commercial retail development of the site have triggered negative responses from merchants in other retail concentrations within the general vicinity. Additionally, since those the time of those previous discussions, retail development has occurred across Geary Boulevard on the former Sears site, and significant retail development has occurred south of Geary at Fillmore. In contrast, the

San Francisco housing market remains strong, and the Geary parcel would offer a medium-rise residential development opportunity with remarkable views of the City and bay.

Project Linkages

Development considerations at the Presidio site must necessarily address two related projects. One is the relocation of the offices in the 949 Presidio building, a prerequisite to the demolition of the building and any new development on the site. The proposed accomplishment of a new headquarters office would satisfy this need and allow development to proceed on the 76,000 square foot Geary frontage portion of the site. Of course, unless the office activities housed at 949 Presidio were moved to an interim location, development activity at the Presidio site would have to wait until a new office building was completed.

The second consideration is the needed expansion of, and improvements to, the Presidio trolley coach division. According the Facilities Plan, there are two basic alternative concepts for accomplishing the improvements, and providing the opportunity for air rights development. One concept is the placement of two decks over the existing yard, allowing for the necessary expansion of storage space as well as the needed shop improvements on the two lower levels. A second concept calls for the expansion of the storage yard on the existing level through excavation to the south toward Geary Boulevard, again in conjunction with an overhaul of the shop functions. This latter concept would, of course, require the demolition of all existing building structures at the Presidio property, and for air rights development, would require a single decking of the site.

Both of these expansion concepts allow for potential joint development of the air rights over the area currently occupied by the storage yard. According to previous analyses conducted for the Railway, low-rise housing would be feasible to build on a large deck, or podium, constructed above either one or two levels of trolley bus storage and maintenance facilities, depending upon which expansion concept was employed. Such housing would not block the eastward views of the existing housing located across Masonic west of the Railway yard.

Project Proposal

Development of the Presidio property is a complicated question due to: one, the nature of the site; two, the project linkages which exist; and three, the capital costs associated with the prerequisite decking of the yard portion of the site. Individually, each of these questions could be addressed, and the property at least partially developed by moving forward with the 76,000 square foot Geary parcel. However, taken together, these questions have the potential to delay any development activity at the Presidio property, indefinitely.

Relocation of the Railway headquarters activity to another site would allow the Geary parcel to developed. The simplest way to accomplish this development would be to entertain a private joint venture development effort in which the Railway retains ownership of the parcel and seeks a long-term commercial ground lease for the development of residential uses on the site.

A pro forma (see Appendix D) was developed for this site which assumes that two residential towers would be constructed, providing a total of 224 condominium units (this assumes the existing 160 foot height limit). The condominium market in San Francisco has been strong in recent years, both in terms of new construction and sales, particularly in the moderate-priced market. Luxury condominiums in the $500,000 to $1 million range represent a minimal share of the current market. The development of the Presidio site would offer San Francisco city and bay views from many of the units, which could add premiums of $25,000 per unit or more. The analysis assumes units priced at an average of $324,000, or approximately $240 per square foot, in a security building with on-site structured parking and limited recreational facilities.

Project Financial Feasibility

Table 8 summarizes the residual land value that may potentially be created from the development of the 76,000 square foot portion of the Presidio site currently occupied by the headquarters building. This analysis does not assume that the remaining approximate 160,000 square feet of the Presidio property is developed. Assuming 224 units, the $2.3 million residual value equals approximately $10,000 per residential unit. An annual payment, based on ten per cent of the value, would yield $230,000 annually to the Public Transportation Commission.

Table 8
Summary of Financial Analysis
Presidio Site High-Rise Residential

Residual Value Analysis	
Net Sales Revenue	$ 66,044,000
less: Total Project Cost (excluding land)	$ 63,756,000
Residual Land Value	$ 2,288,000
Annualized Value	$ 229,000

Source: Economic & Planning Systems; Douglas Wright Consulting

Key Assumptions and Methodology

The assumptions employed in the analysis would vary depending upon a number of factors, including detailed design considerations, construction and demolition costs, and market conditions at the time of development. Simultaneous development of the balance of the property could also affect the cost assumptions for the Geary parcel due to economies of scale. Such development might also likely affect the price of the units on the Geary parcel since the residential towers would be adjacent to additional residential uses rather than a trolley bus storage yard.

The analysis assumes that the units would be condominiums selling at an average price of $324,000 for a 1,350 square foot unit with bay or city views. The price reflects an assumed 10-20 per cent discount from the price which would otherwise be expected for this type of unit since it is assumed that the land is leased rather than owned (by the condominium ownership). Sales and marketing costs equal to nine per cent of the sales price are deducted from the sales price.

The pro forma assumes total development costs (excluding land and developer profit) of $180 per rentable square foot, plus the cost of structured parking sufficient for one space per unit. No cost estimates are included for any off-site impact mitigations that might be required. It is assumed that the land cost would be reflected as either a one-time payment based on the residual value of the project, or as an annualized stream of lease payments.

Finance costs approximately equal to ten per cent of construction costs are included. A profit equal to 10 per cent of total project costs (excluding land) is deducted from revenues in order to estimate residual land value. Assuming the developer invested 30 per cent of costs, this would represent a return of 33 per cent over a likely development period of at least two years.

Project Proposal: Addendum

A pro forma (see Appendix E) was also developed for the approximate 160,000 square foot balance of the Presidio property, in order to understand the approximate level of revenue flow which might be realized from the development of additional residential uses on this parcel. This pro forma assumes a 220 unit residential rental project comprised of three and four story wood frame buildings. The pro forma analysis indicates that this development, again utilizing a ground lease, would generate an additional annual revenue flow of $256,000.

However, it is important to note that this pro forma does not include capital costs associated with the required decking of the Presidio storage yard. No estimate of this cost has been made, but it is safe to assume that it is a significant amount and that it would have to be attributed to the housing development project, the cost of the Presidio expansion project, or shared by the two elements. Although discussed a number of times during the past decade or more, this decking of the yard for development purposes had never been refined in any detail since to do so would require the development of detailed expansion plans.

Although this report is not suggesting that this concept is unworthy of further exploration, its integration with a trolley coach expansion project and the impact the additional increment of capital cost (the decking) would have upon the housing project potential, do raise concerns which at a minimum suggest the concept is complicated and difficult. Consequently, the emphasis here is focused on the smaller and less complicated Geary frontage parcel.

Given the surrounding land uses at the Presidio Division site, and the complexity of both the expansion plans and any joint development concepts, the Railway might give consideration to the possible vacation of the site by Railway activities, which would allow a residential development to occur without the necessary complications of integration with a bus maintenance and storage facility. The Presidio site is surrounded on two sides by residential uses and two sides by commercial office and retail uses. Certainly the office/industrial use to which the Railway puts the property is somewhat incompatible with these adjacent uses, a point of view which certainly will be heard when the Railway places an expansion proposal before the public.

KIRKLAND PROJECT

Proposal

It is proposed that the Transportation Commission pursue the joint development of the Kirkland property by acting to relocate the existing coach division and entering into an long-term ground lease with a private party for the commercial development of the site.

Project Background/Justification

The Kirkland site was acquired from the U.S. War Department following World War II, and began its service as a diesel bus operating division in 1950. Over the course of those years, the neighborhood has changed from one of industrial and warehouse uses to an area of concentrated commercial activities, many of them tourist-related.

Located on a full block of approximately 2.6 acres (113,437 square feet), the Kirkland Division is surrounded by non-industrial uses, including a hotel, an apartment complex, an office building, and a parking garage owned by Pier 39. Approximately one block to the northeast of the Kirkland site, Pier 39's aquarium is scheduled to open in 1996, adding appreciably to the tourist demand and impact in the area. Before the turn of the century, the Municipal Railway's F Line Trolley will be operational, immediately adjacent to the site on Beach Street. F Line trolleys will link Fisherman's Wharf with Market Street via the (nearly completed) Embarcadero boulevard project.

These changes in the surrounding neighborhood have created a land use pattern in which the Kirkland Division is an incompatible land use, as acknowledged in the current Railway Facilities Plan. Predictably, these changes in land uses and the remarkable success of the Fisherman's Wharf - Pier 39 commercial area have led to a substantial increase in the market value of the Kirkland property. Consequently, re-use of the site for a combination of housing and commercial uses, or only commercial uses, would not only represent a more compatible land use, but also present an opportunity for long-term revenue gain by the Railway.

While economic pressures to relocate the Kirkland bus operation have increased over the years, the rationale for doing so has also been articulated by the Municipal Railway from the standpoint of maintenance and operating efficiencies. The Facilities and Infrastructure Plan cites six problems with the Kirkland Division, including: inadequate transportation facilities; no off-street employee parking; and limitations on repair facilities for articulated vehicles. In the past, Municipal Railway staff and consultants to the Railway have concluded that the Kirkland site is simply too small to reach a capacity threshold at which it could be an efficient operating division. This is reflected by the fact

that due to its service capacity of approximately 150 standard vehicles, only "running repairs" are accomplished to the buses. Over ninety per cent of the site is used simply for parking buses.

Consequently, the justification for relocating the Kirkland bus function and pursuing the commercial development of the site makes sense in terms of both market demand for such uses and improving the efficiency of Railway maintenance operations. In the 1980's, this reasoning led to an effort to relocate the Division to a new site. At one point, the Kirkland site was formally declared "surplus" by the Public Utilities Commission as part of that process. However, that effort to relocate the Kirkland operation was predicated on finding a suitable replacement site, and this was not accomplished. However, in the decade since that effort, the justification for vacating Kirkland of Railway bus operations has only grown stronger.

Project Linkages

The only direct project linkage in the development of the Kirkland property is the necessity of relocating the existing diesel operating division. The current Railway plan is to include this relocation in the proposed Islais Creek facility development, which currently is anticipated to occur after the year 2000. Obviously, this does not lend itself to an early opportunity for development of the Kirkland site.

Given the prospective financial implications of the Kirkland site development (as set forth below), serious consideration might be given by the Public Transportation Commission to the relocation of the Kirkland bus operation to an interim location (presumably a leased site) until the Islais Creek site is completed. Certainly the costs of relocating the fairly modest infrastructure which currently is employed at Kirkland as well as the lease cost would be small when compared to the potential revenue return to the Commission on the long-term commercial ground lease of the Kirkland property.

Project Proposal

It is proposed that the Public Transportation Commission pursue the commercial development of the Kirkland property through a long-term ground lease with a private party. Such development would not be possible until the existing Railway diesel bus storage use is relocated. Identification of an adequate site to which the Kirkland activities would be relocated could occur during the time that is needed to define the future development use and envelope at the Kirkland site and for the selection of a private developer.

For purposes of this analysis, commercial development of the Kirkland site is assumed, taking the form of a 360-room, four-story hotel. With commercial uses on adjacent to the site on three sides, assumption of a hotel uses reflects an attempt to maximize the value, and thus the revenue flow to the Transportation Commission, in the site's development. It is also assumed that the project includes on-site parking, as well as restaurants and spa

facilities. The assumed hotel would not be markedly different from several other hotels west of the site, such as the Hyatt and the Sheraton.

The prospects for a hotel on the site are quite strong in light of the city-wide hotel occupancy rate (currently, 72%), and the general as well as localized (e.g., the nearby aquarium) trends for continued growth in tourism. The Kirkland site can readily take advantage of its prime location in this regard. The anticipated opening the Railway's F Trolley Line, which would run eastward along Beach Street beside the hotel, only serves to enhance the value of the site since this trolley line will provide direct access to the central waterfront (Ferry Building area) as well as the length of Market Street. Integration of the Beach Street trolley lines in terms of hotel design could add to the attractiveness of the hotel and encourage use of the Railway's service.

Project Financial Feasibility

Table 9 summarizes the annual lease stream that may potentially be created from the development of hotel on the Kirkland site. The ground lease, based on the calculated residual land value, could produce an estimated $873,000 per year. Development costs, excluding land, are estimated to total approximately $39.5 million. A detailed pro forma of the assumed project can be found in Appendix F. A developer fee equal to 10 per cent of the project cost is assumed in the calculations, while no land cost (including an unknown cost associated with probable toxic waste removal costs) is assumed. The hotel's 360 rooms and related restaurants would generate an estimated $28.2 million in gross revenue per year.

Table 9
Summary of Financial Analysis
Kirkland Site - Hotel

Operations Analysis	
Net Effective Income	$ 28,173,000
Total Operating Expenses	$ (23,347,000)
Net Operating Income (NOI) before debt	$ 4,826,000
less: debt service	$ (2,876,000)
less: land lease	$ (873,000)
NOI after debt service	$ 1,077,000
Residual Value Analysis	
Net Operating Income	$ 4,826,000
Capitalized Value	$ 48,268,000
less: Total Project Cost (excluding land)	$ (39,535,000)
Residual Land Value	$ 8,733,000

Source: Economic & Planning Systems; Douglas Wright Consulting

Key Assumptions and Methodology

The pro forma for the hotel assumes an average room rate of $170 per night, and an occupancy rate which averages 75 per cent. Operating and fixed expenses, assumptions consistent with industry averages, are calculated as a per cent of room revenue.

Construction costs are assumed to be $175 per square foot, including furnishings, fixtures and equipment (FF&E) tenant improvements, and soft costs. Parking costs of $45 per square foot for 60 structure parking spaces are also assumed.

The analysis is structured to estimate the amount of land residual value created by the project, and in turn, the estimated annualized lease stream that the project could afford (to pay to the Commission). The pro forma calculates debt service based on a 9 per cent interest rate, applied to debt on 75 per cent of total project costs (excluding developer profit), amortized over twenty years. The actual terms of the financing would vary depending on the type of financing utilized.

The Kirkland site has in the past been the subject of soil clean-up efforts by the Railway. At this time, the Railway staff estimates that soil remediation costs will add between $1 million and $4 million to the site preparation costs. This additional cost, which could be assigned to the development of the property, has not been included in the analyses or the pro forma.

APPENDICES

A. **Site Maps**

B. **Office Building (140,000 sq. ft.) Pro Forma**

C. **Office Building (120,000 sq. ft.) Pro Forma**

D. **Mission & Steuart Pro Forma**

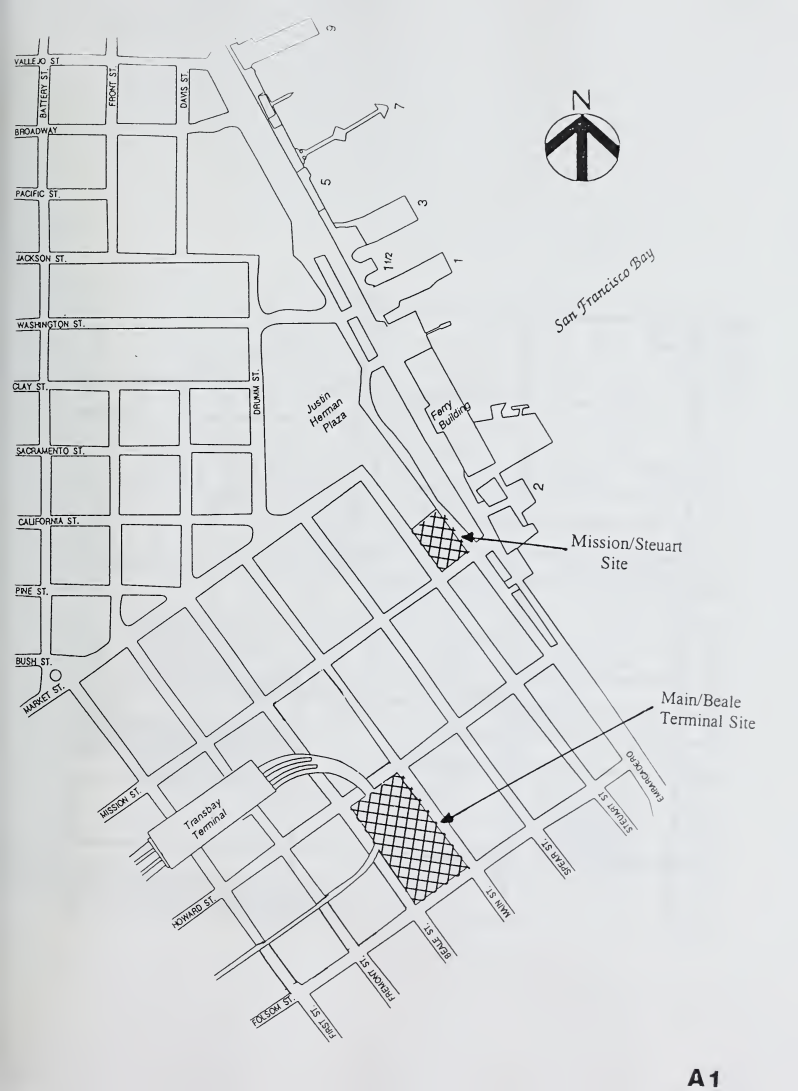
E. **Presidio Pro Forma**

F. **Presidio (Addendum) Pro Forma**

G. **Kirkland Pro Forma**

H. **Municipal Railway Property List**

APPENDIX A: Site Maps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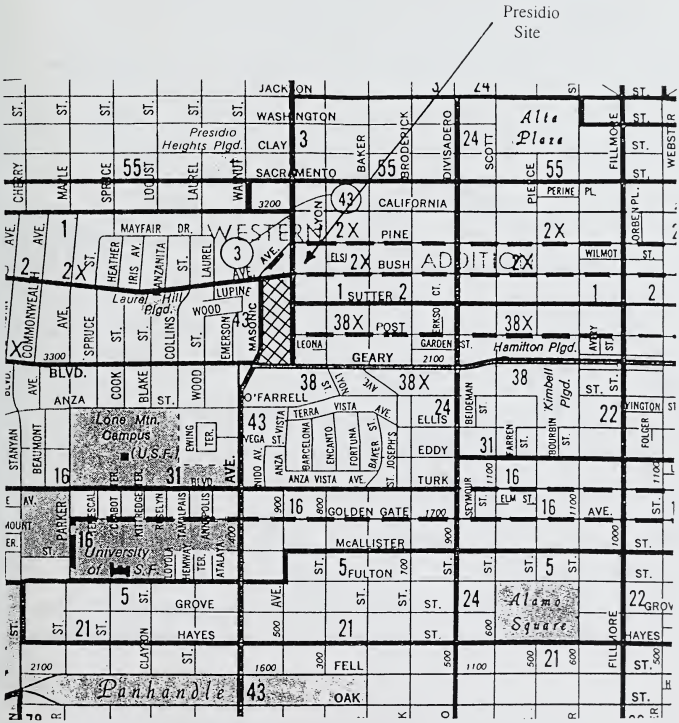
FRONT ST.
DAVIS ST.
BROADWAY
PACIFIC ST.
JACKSON ST.
WASHINGTON ST.
CLAY ST.
DRUMM ST.
SACRAMENTO ST.
CALIFORNIA ST.
PINE ST.
BUSH ST.
MARKET ST.
MISSION ST.
HOWARD ST.
FOLSOM ST.
1ST ST.
FREMONT ST.
BEALE ST.
MAIN ST.
SPEAR ST.
STEUART ST.
EMBARCADERO
Justin Herman Plaza
Ferry Building
San Francisco Bay
N
1
1 1/2
2
3
5
7
Mission/Steuart Site
Main/Beale Terminal Site
Transbay Terminal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Laurel Hill Plgd.
Alta Plaza
Kimbell Plgd.
Hamilton Plgd.
Alamo Square
Lone Mtn. Campus (U.S.F.)
University of S.F.
Panhandle
WESTERN ADDITION
JACKSON
WASHINGTON
CLAY
SACRAMENTO
CALIFORNIA
PINE
BUSH
SUTTER
POST
GEARY
O'FARRELL
EDDY
ELLIS
TURK
GOLDEN GATE
McALLISTER
FULTON
FELL
OAK
HAYES
GROVE
FILLMORE
WEBSTER
LAUREL
WALNUT
SPRUCE
MAPLE
CHERRY
LOCUST
BAKER
BRODERICK
DIVISADERO
SCOTT
PIERCE
STEINER
PERINE PL.
WILMOT
AVERY
GARDEN
LEONA
MASONIC
EMERSON
WOOD
COLLINS
BLAKE
COOK
ANZA BLVD.
LUPINE
MAYFAIR DR.
HEATHER
IRIS AV.
ANZANITA
COMMONWEALTH AVE.
STANYAN
BELVEDERE
MONTE VISTA
TERRA VISTA
BARCELONA
ENCANTO
FORTUNA
ANZA VISTA AVE.
ST. JOSEPH'S
BAKER ST.
VEGA ST.
MIDO AV.
BEIDEMAN
WARREN
TOURIEM
VIRGINIA
FOLGER
SEYMOUR
ELM ST.
CENTRAL
CABOT
KITTREDGE
REVELYN
LOYOLA
PARKER
ARGUELLO BLVD.
MOUNT
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1600
1700
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1000
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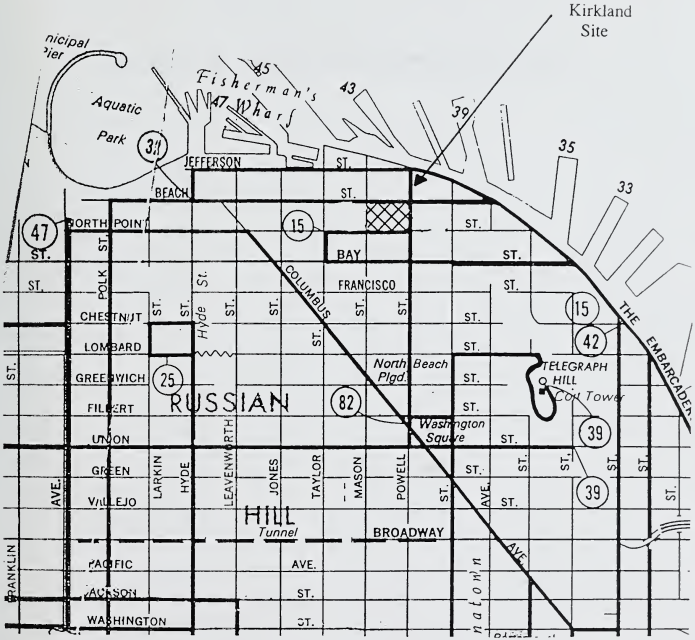
200
100


Kirkland
Site
Aquatic
Park
Fisherman's
Wharf
JEFFERSON
BEACH
NORTH POINT
BAY
FRANCISCO
CHESTNUT
LOMBARD
GREENWICH
FILBERT
UNION
GREEN
VALLEJO
PACIFIC
JACKSON
WASHINGTON
POLK
HYDE
LARKIN
LEAVENWORTH
JONES
TAYLOR
MASON
POWELL
COLUMBUS
RUSSIAN
HILL
Tunnel
BROADWAY
North Beach
Plgd.
Washington
Square
TELEGRAPH
HILL
Coit Tower
THE EMBARCADERO
FRANKLIN
ST.
AVE.

APPENDIX B: Office Building (140,000 sq. ft.) Pro Forma

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per RSF
Project Cost		note 1		
Parking			$2,205,000	$15.75
Building			$21,000,000	$150.00
Total			$23,205,000	$165.75
Net Operating Income (before Land Lease and Debt Service)		note 2	$2,226,496	$15.90
Capitalized Value	9.0%	note 3	$24,738,840	$176.71
Project Cost			$23,205,000	$165.75
Developer Fee	10%	note 4	$2,320,000	$16.57
Subtotal			$25,525,000	
Residual Land Value			($786,160)	($5.62)
Per land sq. ft.		note 5	($19.53)	

(1) See PROJECT ASSUMPTIONS for assumptions relating to project cost.
(2) See PROJECT CASH FLOW for detailed revenue and expense assumptions.
(3) Net Operating Income capitalized at 9.0%.
(4) Calculated as a 10% of total project costs.
(5) Residual land value per square foot is calculated on the land requirement for the building only, and excludes land required for structured parking.

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

PROJECT CASH FLOW:		note 1		
Capital Costs			Total	RSF
Total Capital Requirements			NA	$0.00
Operations - Annual Cash Flow				
Annual Revenue:				
Rental Revenue			$3,360,000	$24.00
Parking Revenue			$201,600	$1.44
Vacancy Allowance			($168,000)	($1.20)
Net Effective Income			$3,393,600	$24.24
Expenses:				
Operating Expenses			$980,000	$7.00
Parking Expenses			$80,640	
Possessory Interest Tax	36%	note 2	$106,464	$0.76
Total Operating Expenses			$1,167,104	$8.34
Net Operating Income (before Land Lease and Debt Service)			$2,226,496	$15.90
Annual Ground Lease Payment		notes 3,4	No land value	No land value
Debt Service		note 5	$2,267,320	
Net Income after Land Lease and Debt Service			($40,825)	

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) For the purposes of calculating possessory interest tax, value is calculated as net operating income before possessory interest tax, capitalized at 9%. Tax is applied to non-Muni portion of bldg.
(3) The ground lease payment is calculated as 10% of the residual value of the land; see FEASIBILITY TEST for calculation of residual land value.
(4) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(5) Assumes 8% interest rate on total costs inc. dev fee, amortized over 30 years.

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:				
Project Description		note 1		
Rentable Square Feet (RSF)			140,000	RSF
Load Factor		note 2	115%	
Gross Square Feet (GSF)			161,000	GSF
Number of Stories			6	stories
Building Footprint			26,833	GSF
			23,333	RSF (rentable floorplates)
Building Footprint to Land Factor			1.50	
Land Requirement (for Building Only)				
Square Feet			40,250	Land sq. ft.
Acres			0.92	acres
Parking Requirement		note 3	1	per 1,000 RSF
Total Parking Spaces Required			140	spaces
Sq. Ft. per Space			350	sq. ft.
Total Parking Sq. Ft.			49,000	Parking sq. ft.
Land Requirement (if surface parking)			1.12	acres
Land Requirement (if structured parking)		note 4	16,333	sq. ft.
			3	levels
Project Cost				
Estimated Land Value		note 5	na	/gross land sq. ft.
Parking			$45.00	/Parking sq. ft.
Building (includes soft costs and financing)		note 6	$150.00	/RSF
Capital Requirements		note 7		
Total Capital Requirements			NA	
Operating Assumptions				
Average Annual Rental Rate (Fully Serviced)		note 8	$24.00	per sq. ft.
Monthly Parking Rate			$120.00	per space
Parking Revenue, net of expenses	40%	note 9	$48.00	per space
Vacancy Rate			5%	
Annual Operating Expenses			$7.00	per sq. ft.
Possessory Interest Tax		note 10	1.15%	of capitalized value
Annual Ground Lease Payments			10%	of residual land value

(1) The Load Factor incorporates non-rentable space such as restrooms, corridors, and common areas such as the lobby in order to calculate the total gross building area.
(2) Per city parking requirements.
(3) It is assumed that structured parking will be constructed.
(4) Includes a $30.00 tenant improvement allowance. Does not include builder profit.
(5) Includes rent paid by Muni.
(6) Estimated that parking expenses are equal to 40% of parking revenue.
(7) Includes amortization of TI's, capital reserve & vacant space expenses.
(8) See FEASIBILITY TEST for capitalized value. Tax applied to non-Muni portion of bldg.

APPENDIX C: Office Building (120,000 sq. ft.) Pro Forma

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:				
Project Description				
Rentable Square Feet (RSF)			120,000	RSF
Load Factor		note 1	115%	
Gross Square Feet (GSF)			138,000	GSF
Number of Stories			6	stories
Building Footprint			23,000	GSF
			20,000	RSF (rentable floorplates)
Building Footprint to Land Factor			1.50	
Land Requirement (for Building Only)				
Square Feet			34,500	Land sq. ft.
Acres			0.79	acres
Parking Requirement		note 2	1	per 1,000 RSF
Total Parking Spaces Required			120	spaces
Sq. Ft. per Space			350	sq. ft.
Total Parking Sq. Ft.			42,000	Parking sq ft.
Land Requirement (if surface parking)			0.96	acres
Land Requirement (if structured parking)		note 3	14,000	sq. ft.
			3	levels
Project Cost				
Parking			$45.00	/Parking sq. ft.
Building (includes soft costs and financing)		note 4	$150.00	/RSF
Operating Assumptions				
Average Annual Rental Rate (Fully Serviced)		note 5	$24.00	per sq. ft.
Monthly Parking Rate			$120.00	per space
Parking Expenses	40%	note 6	$48.00	per space
Vacancy Rate			5%	
Annual Operating Expenses		note 7	$7.00	per sq. ft.
Possessory Interest Tax		note 8	1.15%	of capitalized value
Annual Ground Lease Payments			10%	of residual land value

(1) The Load Factor incorporates non-rentable space such as restrooms, corridors, and common areas such as the lobby in order to calculate the total gross building area.
(2) Per city parking requirements.
(3) It is assumed that structured parking will be constructed.
(4) Includes a $30.00 tenant improvement allowance. Does not include builder profit.
(5) Includes rent paid by Muni.
(6) Estimated that parking expenses are equal to 40% of parking revenue.
(7) Includes amortization of TI's, capital reserve & vacant space expenses.
(8) See FEASIBILITY TEST for capitalized value. Tax applied to non-Muni portion of bldg.

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

PROJECT CASH FLOW:		note 1		
			Total	RSF
Operations - Annual Cash Flow				
Annual Revenue:				
Rental Revenue			$2,880,000	$24.00
Parking Revenue			$172,800	$1.44
Vacancy Allowance			($144,000)	($1.20)
Net Effective Income			$2,908,800	$24.24
Expenses:				
Operating Expenses			$840,000	$7.00
Parking Expenses			$69,120	
Possessory Interest Tax	42%	note 2	$106,464	$0.89
Total Operating Expenses			$1,015,584	$8.46
Net Operating Income (before Land Lease and Debt Service)			$1,893,216	$15.78
Annual Ground Lease Payment		notes 3,4	No land value	No land value
Debt Service		note 5	$1,943,544	
Net Income after Land Lease and Debt Service			($50,329)	

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) For the purposes of calculating possessory interest tax, value is calculated as net operating income before possessory interest tax, capitalized at 9%. Tax is applied to non-Muni portion of bldg.
(3) The ground lease payment is calculated as 10% of the residual value of the land; see FEASIBILITY TEST for calculation of residual land value.
(4) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(5) Assumes 8% interest rate on total costs inc. dev. fee, amortized over 30 years.

Table A
Mid-Rise Office Industry Profile
SF Muni Site Reuse Study

FEASIBILITY TEST

			Project Total	Per RSF
Project Cost		note 1		
Parking			$1,890,000	$15.75
Building			$18,000,000	$150.00
Total			$19,890,000	$165.75
Net Operating Income (before Land Lease and Debt Service)		note 2	$1,893,216	$15.78
Capitalized Value	9.0%	note 3	$21,035,728	$175.30
Project Cost			$19,890,000	$165.75
Developer Fee	10%	note 4	$1,990,000	$16.58
Subtotal			$21,880,000	
Residual Land Value			($844,272)	($7.04)
Per land sq. ft.		note 5	($24.47)	

(1) See PROJECT ASSUMPTIONS for assumptions relating to project cost.
(2) See PROJECT CASH FLOW for detailed revenue and expense assumptions.
(3) Net Operating Income capitalized at 9.0%.
(4) Calculated as a 10% of total project costs.
(5) Residual land value per square foot is calculated on the land requirement for the building only, and excludes land required for structured parking.

APPENDIX D: Mission & Steuart Pro Forma

Table B
Small Hotel Industry Profile
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:			
Project Description			
Features			
Restaurants	note 1	0	sq. ft. (see retail prototype)
Number of Rooms		135	rooms
Average Net Room Size		350	sq. ft
Load Factor	note 2	25%	
Room Size with Load Factor		437.5	sq. ft.
Gross Building Area (excl. restaurants)		59,063	sq. ft.
Restaurants	note 1	0	sq. ft.
Total Gross Building Area		59,063	sq. ft.
Number of Stories		3	stories (average)
Building Footprint		19,688	sq. ft.
Building Footprint to Land Factor		1.5	
Land Requirement			
Square Feet		29,531	sq. ft.
Acres		0.7	acres
Parking Requirement			
Guest Parking	note 3	1.0	space per 6 rooms
Total Parking Spaces Required		23	spaces
Square Foot per Space		350	sq. ft.
Total Parking Square Feet		7,875	sq. ft.
Land Requirement (if surface parking)		0.2	acres
Land Requirement (if structured parking)	note 4	7,875	sq. ft.
		1	levels
Project Cost			
Parking Structure	note 4	na	/Parking sq. ft.
Building (includes F.F.E., soft costs and financing)	note 5	$150.00	/Building sq. ft.
Operating Assumptions			
Average Room Rate	note 6	$140.00	per room
Days Open Per Year		360	days per year
Vacancy Rate		15%	
Food and Beverage Gross Revenue	note 7	5.0%	of net room revenue
Miscellaneous Revenue	note 8	8.0%	of net room revenue
Annual Hotel Departmental Operating Expenses		31%	of net room revenue
Annual Food and Beverage Departmental Op. Exp.		75%	of food and beverage revenues
Undistributed and Fixed Operating Expenses	note 9	49%	of net room revenue
Possessory Interest Tax		1.15%	of capitalized value
Annual Ground Lease Payments	note 10	8%	of residual land value

Table B
Small Hotel Industry Profile
SF Muni Site Reuse Study

NOTES TO PROJECT ASSUMPTIONS:

(1) Included in retail proforma.
(2) The Load Factor incorporates non-rentable space such as restrooms, corridors, and common areas such as the lobby in order to calculate the total building area.
(3) City parking requirements are equal to 1 per 16 rooms; the ratio used here is similar to that of the Mariott hotel; it is assumed that structured parking will be available nearby.
(4) Parking will be accomodated off-site; costs are assumed to be added to hotel rates.
(5) It is assumed there are no toxics on the site, or extraordinary development costs.
(6) Includes discount rates; the cash flow and feasibility test are very sensitive to changes in the room rate. Rate is based on a sample of comparable hotels in San Francisco.
(7) Assumes limited food service; separate restaurant facility on ground floor.
(8) Includes telephone and other revenue.
(9) Includes telephone expenses, marketing costs, management fee, insurance, reserves, and other fixed expenses.
(10) Actual lease may be based on a fixed payment plus share of gross revenues.

Table B
Small Hotel Industry Profile
SF Muni Site Reuse Study

PROJECT CASH FLOW

		Project Total	Per Hotel Room
Operations - Annual Cash Flow			
Revenue:			
Gross Room Revenue		$6,804,000	$50,400
Less Vacancy Allowance		($1,020,600)	($7,560)
Net Room Revenue		$5,783,400	$42,840
Food and Beverage Gross Revenue		$289,170	$2,142
Miscellaneous Revenue		$462,672	$3,427
Net Effective Income		$6,535,242	$48,409
Expenses:			
Hotel Departmental Operating Expenses		$1,792,854	$13,280
Food and Beverage Departmental Operating Expenses		$216,878	$1,607
Undistributed and Fixed Expenses		$2,833,866	$20,992
Possessory Interest Tax	note 2	$171,194	$1,268
Total Operating Expenses		$5,014,792	$37,147
Net Operating Income (before Land Lease and Debt Service)		$1,520,450	$11,263
Annual Ground Lease Payment	notes 3,4	$436,410	$3,233
Debt Service	note 5	$727,885	
Net Income after Land Lease and Debt Service		$356,155	16% ROI

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) For the purposes of calculating possessory interest tax, value is calculated as net operating income before possessory interest tax, capitalized at 10%.
(3) The ground lease payment is calculated as 8% of residual land value; see FEASIBILITY TEST for calculation of residual land value.
(4) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(5) Assumes 25% equity, 9% interest rate, amortized over 20 years.

Table B
Small Hotel Industry Profile
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per Hotel Room
Project Cost		note 1		
Parking			$0	$0
Building			$8,859,375	$65,625
Total			$8,859,375	$65,625
Debt		75%	$6,644,531	
Equity		25%	$2,214,844	
Net Operating Income (before Land Lease and Debt Service)		note 2	$1,520,450	$11,263
Capitalized Value	10%	note 3	$15,204,501	$112,626
Less Project Cost			$8,859,375	$65,625
Less Developer Fee	10%	note 4	$890,000	$6,593
Residual Land Value			$5,455,126	$40,408

(1) See Project Assumptions for assumptions relating to project cost.
(2) See Project Cash Flow for detailed revenue and expense assumptions.
(3) Net Operating Income capitalized at 10.0%.
(4) Calculated as a 10% return on project costs.

Table C
Retail
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:

Project Description	note 1		
Rentable Square Feet (RSF)		21,000	RSF
Load Factor	note 2	100%	
Gross Square Feet (GSF)		21,000	GSF
Number of Stories		1	story
Building Footprint		21,000	RSF
Building Footprint to Land Factor		1.50	
Land Requirement (for Building Only)			
Square Feet	note 3	31,500	Land sq. ft.
Acres		0.72	acres
Parking Requirement	note 4	5	per 1,000 RSF
Total Parking Spaces Required		105	spaces
Sq. Ft. per Space		350	sq. ft.
Total Parking Sq. Ft.		36,750	Parking sq. ft.
Land Requirement (if surface parking)		0.84	acres
Land Requirement (if structured parking)	note 5	18,375	sq. ft.
		2	levels
Project Cost			
Parking	note 5	na	/Parking sq. ft.
Building (includes soft costs and financing)	note 6	$150.00	/RSF
Operating Assumptions			
Average Annual Rental Rate (NNN)	note 8	$30.00	per sq. ft.
Monthly Parking Rate	note 9	$0.00	per space
Parking Expenses per space	0% note 9	$0.00	per space
Vacancy Rate		5%	
Annual Operating Expenses	note 10	$7.00	per sq. ft.
Possessory Interest Tax	note 11	1.15%	of capitalized value
Annual Ground Lease Payments		10.0%	of residual land value
Sales per square foot		$250.00	per sq. ft./yr avg.

Table C
Retail
SF Muni Site Reuse Study

NOTES TO PROJECT ASSUMPTIONS:

(1) This retail space includes restaurant, bar, trolley related exhibit & retail space.
(2) No load factor is assumed. Common area is assumed to be absorbed by hotel lobby and related space
(3) The land requirement is addressed here for the purposes of calculating land value per land square foot.
(4) Based on city requirements.
(5) It is assumed that no onsite parking will be provided; the restaurant is assumed to provide valet parking
(6) Includes a $40.00 per sq. ft. tenant improvement allowance.
(7) It is assumed there are no toxics on the site or other extraordinary development costs.
(8) The rental rate shown here is based on rents in comparable projects per information obtained from local real estate brokers.
(9) No parking revenue or expenses are assumed to be attributed to this project.
(10) Fixed operating expenses, including amortiazion of TI, capital reserves & vacant space expenses. Actual vacancy rate likely to be less than 5%; estimated rate includes subsidy of exhibit space.
(11) Tenant is responsible for utilities, taxes and insurance.

Table C
Retail
SF Muni Site Reuse Study

PROJECT CASH FLOW

		Project Total	Per RSF
Operations - Annual Cash Flow			
Annual Revenue:			
Rental Revenue	note 1	$630,000	$30.00
Parking Revenue		$0	$0.00
Vacancy Allowance		($31,500)	($1.50)
Net Effective Income		$598,500	$28.50
Expenses:			
Operating Expenses		$147,000	$7.00
Parking Expenses		$0	$0.00
Possessory Interest Tax		$45,692	$2.18
Total Operating Expenses		$192,692	$9.18
Net Operating Income (before Land Lease and Debt Service)		$405,808	$19.32
Annual Ground Lease Payment	notes 2,3	$58,808	$2.80
Debt Service	note 4	$258,804	
Net Income after Land Lease and Debt Service		$88,196	

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) The ground lease payment is calculated as 10% of the residual value of the land; see FEASIBILITY TEST for calculation of residual land value.
(3) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(4) Assumes 25% equity, 9% interest rate, amortized over 20 years.

Table C
Retail
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per RSF
Project Cost		note 1		
Parking			$0	$0.00
Building			$3,150,000	$150.00
Total			$3,150,000	$150.00
Debt		75%	$2,362,500	
Equity		25%	$787,500	
Net Operating Income (before Land Lease and Debt Service)		note 2	$405,808	$19.32
				$0.00
Capitalized Value	10.0%	note 3	$4,058,082	$193.24
Less Project Cost			$3,150,000	$150.00
Less Developer Profit	10%	note 4	$320,000	$15.24
Residual Land Value			$588,082	$28.00

(1) See PROJECT ASSUMPTIONS for assumptions relating to project cost.
(2) See PROJECT CASH FLOW for detailed revenue and expense assumptions.
(3) Net Operating Income capitalized at 10.0%.
(4) Calculated as a 10% return on Project Cost.

APPENDIX E: Presidio Pro Forma

Table D
High-Rise Residential
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:

Project Description	note 1		
Features		Parking, Views, Some Fireplaces, Weight Room	
Average Unit Size		1,350	sq. ft.
Number of Units		224	in two towers
Density		140	units per acre
Square Feet (SF)		302,400	SF
Load Factor	note 2	110%	
Gross Square Feet (GSF)		332,640	GSF
Number of Stories		28	stories total in two towers
Building Footprint		11,880	sq.ft. each of 2 towers
Land Requirement			
Square Feet	note 3	69,696	Land sq. ft.
Acres		1.60	acres
Parking Requirement	note 4	1.00	per unit
Total Parking Spaces Required		224	spaces
Sq. Ft. per Space		350	sq. ft.
Total Parking Sq. Ft.		78,400	Parking sq. ft.
Configuration of parking	note 5	2.0	levels on portion of total site
Project Cost			
Estimated Land Value	note 6	na	/gross land sq. ft.
Parking Structure		$45.00	/Parking sq. ft.
Building (includes soft costs and financing)		$180.00	/RSF
Capital Requirements	note 7		
Total Capital Requirements		NA	
Operating Assumptions			
Average Sale Price	note 8	$240.00	per sq. ft., /unit= $324,000
Costs of Sale		9.0%	of sale price per unit
Possessory Interest Tax		NA	
One-Time Payment		Based on residual land value	

(1)

(2) The Load Factor incorporates non-rentable space such as corridors, and common areas such as the lobby in order to calculate the total gross building area.
(3) na
(4) na
(5) Calculated by dividing the parking sq. ft. by the site area; site constraints may prohibit some parking configurations, such as underground parking.
(6) na
(7) It is assumed in this case that there are not toxics on the site.
(8) Sale price has been discounted by 20% for reduced marketability because units exclude land ownership.

Table D
High-Rise Residential
SF Muni Site Reuse Study

PROJECT CASH FLOW:		note 1		
Capital Costs			Project Total	Per Unit
Total Capital Requirements		NA		$0
Operations - Annual Cash Flow				
Annual Revenue:				
Gross Sales Revenue			$72,576,000	$324,000
Less Costs of Sale		note 2	$6,531,840	$29,160
Net Sales Revenue			$66,044,160	$294,840
One-time Payment for Land Value		notes 3,4	$2,288,160	$10,215
Annual Lease Payments	10%		$228,816	

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) Includes a 3% outside broker commission, 1.5% in-house commission, and marketing costs.
(3) Payment is equal to the residual land value.
(4) Revenues (and therefore the land payment) are based on a clean, entitled site.

Table D
High-Rise Residential
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per Unit
Project Cost		note 1		
Parking			$3,528,000	$15,750
Building			$54,432,000	$243,000
Total			$57,960,000	$258,750
Net Sales Revenue (before Land Lease and Debt Service)		note 2	$66,044,160	$294,840
Project Value		note 3	$66,044,160	$294,840
Less Project Cost			$57,960,000	$258,750
Less Developer Profit	10%	note 4	$5,796,000	$25,875
Residual Land Value			$2,288,160	$10,215
Per land sq. ft.		note 5	$32.83	
Per unit			$10,215	

(1) See PROJECT ASSUMPTIONS for assumptions relating to project costs.
(2) See PROJECT CASH FLOW for detailed revenue and expense assumptions.
(3) Equal to Net Sales Revenue.
(4) Calculated as 10% of project cost.
(5) Residual land value per sq. ft. is calculated on the land requirement for the building only and excludes the land required for structured parking.

APPENDIX F: Presidio (Addendum) Pro Forma

Table E
Residential Rental (3 to 4 stories)
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:

Project Description				
Features		Podium Parking, Weight Room		
Average Unit Size		850	sq. ft.	
Number of Units:		220		
Density		60	units per acre	
Rentable Square Feet (RSF)		187,000	RSF	
Load Factor	note 1	110%		
Gross Square Feet (GSF)		205,700	GSF	
Number of Stories		4	stories	
Building Footprint		51,425		
Land Requirement				
Square Feet	note 2	159,720	Land sq. ft.	
Acres		3.67	acres	
Parking Requirement		1.00	per unit	
Total Parking Spaces Required		220	spaces	
Sq. Ft. per Space		350	sq. ft.	
Total Parking Sq. Ft.		77,000	Parking sq. ft.	
Configuration of podium parking		1.5	levels	
Project Cost				
Estimated Land Value		na	/gross land sq. ft.	
Parking Structure		$40.00	/Parking sq. ft.	
Building (includes soft costs and financing)	note 3	$95.00	/RSF	
Operating Assumptions				
Average Monthly Rent		$1.35	per sq. ft.	$1,148
Monthly Parking Rate		$95.00	per space	
Parking expenses	note 4	30%	$28.50	per space
Vacancy Rate		5%		
Monthly Operating Expenses		$225.00	per unit	
Possessory Interest Tax	note 5	1.15%	of capitalized value	
Annual Ground Lease Payments		10%	of residual land value	

(1) The Load Factor incorporates non-rentable space such as corridors, and common area.
(2) Based on a density of 60 units per acre; for a 100-unit project, the land requirement would be 1.67 acres
(3) It is assumed there are no toxics on the site, or other extraordinary development costs.
(4) Estimated that parking expenses are equal to 30% of parking revenue.
(5) See Feasibility Test for capitalized value.

Table E
Residential Rental (3 to 4 stories)
SF Muni Site Reuse Study

PROJECT CASH FLOW	note 1		
		Project	Per
Capital Costs		Total	Unit
Total Capital Requirements		NA	$0
Operations - Annual Cash Flow			
Annual Revenue:			
Rental Revenue		$3,029,400	$13,770
Parking Revenue		$250,800	$1,140
Vacancy Allowance		($151,470)	($689)
Net Effective Income		$3,128,730	$14,222
Expenses:			
Operating Expenses		$594,000	$2,700
Parking Expenses		$75,240	
Possessory Interest Tax	note 2	$292,824	$1,331
Total Operating Expenses		$962,064	$4,373
Net Operating Income (before Land Lease and Debt Service)		$2,166,666	$9,848
Annual Ground Lease Payment	notes 3,4	$256,069	$1,164
Debt Service	note 5	$1,388,706	
Net Income after Land Lease and Debt Service		$521,891	13%

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) For the purposes of calculating possessory interest tax, value is calculated as net operating income before possessory interest tax, capitalized at 9%.
(3) The ground lease payment is based on 10% of the residual value of the land; see FEASIBILITY TEST for calculation of residual land value.
(4) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(5) Assumes 8% interest rate on total costs (exc. dev. fee), amortized over 30 years.

Table E
Residential Rental (3 to 4 stories)
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per Unit
Project Cost		note 1		
Parking			$3,080,000	$14,000
Building			$17,765,000	$80,750
Total			$20,845,000	$94,750
Debt		75%	$15,633,750	
Equity		25%	$3,908,438	
Net Operating Income (before Land Lease and Debt Service)		note 2	$2,166,666	$9,848
Capitalized Value	8.5%		$25,490,188	$115,864
Less Project Cost			$20,845,000	$94,750
Less Developer Fee	10.0%	note 3	$2,084,500	$9,475
Residual Land Value			$2,560,688	$11,639
Per land sq. ft.			$16.03	

(1) See PROJECT ASSUMPTIONS for assumptions relating to project costs.
(2) See PROJECT CASH FLOW for detailed revenue and expense assumptions.
(3) Developer fee shown as a % of Project Cost.

APPENDIX G: Kirkland Pro Forma

Table F
Hotel Industry Profile
SF Muni Site Reuse Study

PROJECT ASSUMPTIONS:				
Project Description	note 1			
Features				
Restaurants		20,000	sq. ft.	
Spa Facilities		included in load factor		
Number of Rooms		360	rooms	
Average Net Room Size		400	sq. ft.	
Load Factor	note 2	25%		
Room Size with Load Factor		500	sq. ft.	
Gross Building Area (excl. conference center and restaurants)		180,000	sq. ft.	
Restaurants		20,000	sq. ft.	
Total Gross Building Area		200,000	sq. ft.	
Number of Stories		4	stories (average)	
Building Footprint		50,000	sq. ft.	
Building Footprint to Land Factor		1.5		
Land Requirement				
Square Feet		75,000	sq. ft.	
Acres		1.7	acres	
Parking Requirement				
Guest Parking	note 3	1.0	space per 6 rooms	
Total Parking Spaces Required		60	spaces	
Square Foot per Space		350	sq. ft.	
Total Parking Square Feet		21,000	sq. ft.	
Land Requirement (if surface parking)		0.5	acres	
Land Requirement (if structured parking)	note 4	21,000	sq. ft.	
		1	level	
Project Cost				
Parking Structure		$45.00	/Parking sq. ft.	15,750.0
Building (includes F.F.E., soft costs and financing)	note 5	$175.00	/Building sq. ft.	
Operating Assumptions				
Average Room Rate	note 6	$170.00	per room	
Days Open Per Year		360	days per year	
Vacancy Rate		25%		
Food and Beverage Gross Revenue		64%	of net room revenue	
Miscellaneous Revenue	note 7	6.5%	of net room revenue	
Annual Hotel Departmental Operating Expenses		30%	of net room revenue	
Annual Food and Beverage Departmental Op. Exp.		75%	of food and beverage revenues	
Undistributed and Fixed Operating Expenses	note 8	60%	of net room revenue	
Possessory Interest Tax		1.15%	of capitalized value	
Annual Ground Lease Payments		10%	of residual land value	

Table F
Hotel Industry Profile
SF Muni Site Reuse Study

NOTES TO PROJECT ASSUMPTIONS:

(1) This profile is calibrated for a major hotel of at least 300 rooms. A smaller project may result in the need to modify this profile.
(2) The Load Factor incorporates non-rentable space such as restrooms, corridors, and common areas such as the lobby and spa facilities in order to calculate the total building area.
(3) City parking requirements are equal to 1 per 16 rooms; the ratio used here is similar to that of the Mariott hotel; it is assumed that additional structured parking will be available nearby.
(4) Parking will be accomodated on site, incorporated into a portion of the ground floor of the hotel.
(5) It is assumed there are no toxics on the site, or other extraordinary development costs.
(6) Includes discount and conference rates; the cash flow and feasibility test are very sensitive to changes in the room rate.
(7) Includes telephone and other revenue.
(8) Includes telephone expenses, management fee, insurance, and reserves.

Table F
Hotel Industry Profile
SF Muni Site Reuse Study

PROJECT CASH FLOW:	note 1		
		Project Total	Per Hotel Room
Operations - Annual Cash Flow			
Revenue:			
Gross Room Revenue		$22,032,000	$61,200
Less Vacancy Allowance		($5,508,000)	($15,300)
Net Room Revenue		$16,524,000	$45,900
Food and Beverage Gross Revenue		$10,575,360	$29,376
Miscellaneous Revenue		$1,074,060	$2,984
Net Effective Income		$28,173,420	$78,260
Expenses:			
Hotel Departmental Operating Expenses		$4,957,200	$13,770
Food and Beverage Departmental Operating Expenses		$7,931,520	$22,032
Undistributed and Fixed Expenses		$9,914,400	$27,540
Possessory Interest Tax	note 2	$543,474	$1,510
Total Operating Expenses		$23,346,594	$64,852
Net Operating Income (before Land Lease and Debt Service)		$4,826,826	$13,408
Annual Ground Lease Payment	notes 3,4	$873,326	$2,426
Debt Service	note 5	$2,875,595	
Net Income after Land Lease and Debt Service		$1,077,905	12%

(1) See PROJECT ASSUMPTIONS for detail on revenue and expenses.
(2) For the purposes of calculating possessory interest tax, value is calculated as net operating income before possessory interest tax, capitalized at 10%, in order to avoid a circular reference.
(3) The ground lease payment is calculated as 10% of residual land value; see FEASIBILITY TEST for calculation of residual land value.
(4) Revenues (and therefore the ground lease payment) are based on a clean, entitled site.
(5) Assumes 25% equity, 9% interest rate, amortized over 20 years.

Table F
Hotel Industry Profile
SF Muni Site Reuse Study

FEASIBILITY TEST:

			Project Total	Per Hotel Room
Project Cost		note 1		
Parking			$945,000	$2,625
Building			$35,000,000	$97,222
Total			$35,945,000	$99,847
Debt		75%	$26,250,000	
Equity		25%	$8,750,000	
Net Operating Income (before Land Lease and Debt Service)		note 2	$4,826,826	$13,408
Capitalized Value	10%	note 3	$48,268,256	$134,078
Less Project Cost			$35,945,000	$99,847
Less Developer Profit	10%	note 4	$3,590,000	$9,972
Residual Land Value			$8,733,256	$24,259

(1) See Project Assumptions for assumptions relating to project cost.
(2) See Project Cash Flow for detailed revenue and expense assumptions.
(3) Net Operating Income capitalized at 10.0%.
(4) Calculated as a 10% return on equity; assumes that equity is equal to 35% of the project cost.

APPENDIX H: Municipal Railway Property List

Municipal Railway Property List

Description	Area (square feet)
Cable Car Power House, 1201 Washington Street	39,646
Cable Car Terminal, Beach & Hyde Streets	10,527
Substation (Fillmore near Sutter)	6,950
SE Turk & Fillmore Streets	23,926
949 Presidio	235,550
Sunset Tunnel, Carl near Cole Street	39,456
8th Avenue Substation	6,000
Balboa La Playa Terminal Loop	17,400
Terminal Loop SE Judah & La Playa	2,625
Bus Shelter SW 14th & Quintara	2,640
Forest Hill Station, Laguna Honda Boulevard	50,137
1940 Harrison Storage & Maintenance Facility	268,872
SE Church & 20th Streets (J Line)	28,153
NE Church & 22nd Streets (J Line)	26,627
Downtown Substation, 79 Stevenson	4,644
Muni Turnaround, Mission & Steuart	34,375
Bryant Substation, NE Bryant & Alameda Streets	48,000
2500 Mariposa, Potrero Division	192,000
700 Pennsylvania, Maintenance Facility	88,473

Municipal Railway Property List (cont)

Description	Area (square feet)
2548 24th Street, Garage	80,000
1301 Army Street	170,000
425 Andover, Substation	1,750
W. Russia & London, Substation	5,000
SW San Jose & Ocean Avenues, Metro Rail Center	334,802
2301 San Jose Avenue, Geneva Car Barn	118,375
LRV Storage Tracks, San Jose Avenue	29,916
East 19th Avenue, Ocean & Eucalyptus (r.o.w.)	78,032